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CHIEF ADMINISTRATIVE OFFICER
COUNTY OF LOS ANGELES



713 HALL OF ADMINISTRATION / LOS ANGELES, CALIFORNIA 90012
974.1101

HARRY L. HUFFORD
CHIEF ADMINISTRATIVE OFFICER

January 30, 1981

MEMBERS OF THE BOARD

EDMUND D. EDELMAN
CHAIRMAN

PETER F. SCHABARUM
KENNETH HAHN
DEANE DANA

MICHAEL D. ANTONOVICH

To: Each Board Member

From: Harry L. Hufford, CAO *H.L.H.*

Subject: GOVERNOR'S PROPOSED STATE BUDGET

The attached report deals with our preliminary analysis of the Governor's 1981-82 proposed State budget.

Regrettably, the analysis will read quite similarly to the analyses I submitted dealing with the potential impact of Proposition 13. I wish to remind the Board that when Proposition 13 was considered by the voters, Governor Brown stated that no replacement revenue would be provided to local government--and on that basis we predicted the severe impact of the full implementation of Proposition 13. The State did provide 75% replacement revenue to this County and the impact was substantially mitigated--although the 25% cut in revenue had to be addressed through service cuts, fee increases and voter approval of new benefit assessment for flood control and garbage collection districts.

Today the Governor's budget also reflects a severe impact on local government budgets throughout the State -- and certainly in Los Angeles County.

I recognize that the Governor has not had a chance, since he did not ask for the opportunity, to consider the impact of his recommendations on local government services. I also recognize that the budget is before the Legislature and may have substantial modifications prior to its final adoption.

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Each Board Member

-2-

January 30, 1981

Nonetheless, it is my duty to report to the Board of Supervisors the potential impact of Governor Brown's budget as he has submitted it to the Legislature. Any assessment of the impact of a nearly \$200 million loss to the County, of necessity, includes severe predictions which can be averted only by appropriate State budget actions.

HLH:ps

Attachment

cc: County Counsel

Executive Officer, Board of Supervisors

OFFICE OF COUNTY TREASURER AND TAX COLLECTOR

January 29, 1981

TO: Harry L. Hufford
Chief Administrative Officer

FROM: H. B. Alvord
Treasurer and Tax Collector, *H.B. Alvord*

SUBJECT: IMPACT OF GOVERNOR'S 1981-82
PROPOSED STATE BUDGET

I share your concern of the subject which we discussed briefly last night walking out of the building.

I am particularly concerned with the Governor and the Legislature apparently meddling with what we thought was a permanent formula under which local government and the public school system were supposed to have had long term financing arrangements with the State. The fact that the Legislature or the Governor has the ability to take this away on what appears to be very short notice plays havoc with our credit ratings.

The rating agencies are very concerned with anything that creates uncertainty as the Governor's proposed budget does. It is this uncertainty which led to the complete withdrawal of all ratings on Joint Powers Authorities and non-profit corporation bond issues in 1978. It was uncertainty which reduced those ratings when they were restored a year or so later.

What we need is a permanent financing formula if we are to run things on anything like a businesslike basis. Rating agency authorities have told us that Los Angeles County in particular has managed its affairs very well, and insofar as things under our control, we would always enjoy top credit ratings with that sort of management. Our inability to control the uncertain actions of the Governor and the Legislature, however, are another story.

There is no question that the economy of the State and of Los Angeles County is sufficient to give both very high credit ratings. It is the uncertainty created by the frequent changes in the formula which works to the detriment of both the State and the County. As you know, the State's rating has already been reduced from AAA to AA.

HBA:ea

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CHIEF ADMINISTRATIVE OFFICER COUNTY OF LOS ANGELES



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MICHAEL D. ANTONOVICH

HONORABLE BOARD OF SUPERVISORS
County of Los Angeles
383 Hall of Administration

Dear Supervisors:

IMPACT OF GOVERNOR BROWN'S 1981-82 PROPOSED STATE BUDGET

On January 13, 1981, on the motion of Supervisor Schabarum, this office was instructed to analyze Governor Brown's proposed 1981-82 budget and report on its impact on the County and to identify State-mandated programs which should be made optional or modified to allow the Board greater flexibility in decision making and allocation of resources.

The impact of the Governor's proposed 1981-82 State Budget indicates a \$197.6 million revenue shortfall to Los Angeles County as follows:

- diverts all but \$17 million of the County's additional property tax revenues to relieve the State of a like amount of school financing obligations. (L.A. County loss: \$80.0 million)
- diverts \$85.3 million in 1978-79 unsecured property taxes to the State. These taxes were levied, collected, and defended through the State Supreme Court by this County. Rightfully, local government should have the ability to determine whether these taxes are to be rebated or used to balance budgets at the local level. Governor Brown proposes to use these funds to assist in funding the State Budget. (L.A. County loss: \$85.3 million)
- imposes subvention caps of 0.0 % to 4.75% on inflationary increases in health and human services programs and business inventory exemptions over that provided in current law (L.A. County loss: \$32.3 million)

1981-82 FISCAL FORECAST GENERAL COUNTY
(Millions of \$)

| | <u>1980-81</u> | <u>1981-82 Present Law</u> | <u>Estimated Governor's Budget</u> | <u>Shift to State-- Loss to Co.</u> |
|------------------------------|----------------|------------------------------------|--|---|
| Federal Revenue | \$1,145.0 | \$1,260.4 | \$1,260.4 | \$ -- |
| State Revenue | | | | |
| Bus. Inv. Subv. | 78.3 | 92.0 | 82.2 | (-9.8) |
| AB-8 Health | 131.4 | 151.2 | 137.7 | (-13.5) |
| Mental Health | 89.5 | 98.5 | 89.5 | (-9.0) |
| Other | 1,255.6 | 1,403.0 | 1,403.0 | -- |
| County Revenues | | | | |
| Earmarked Fees | 423.9 | 483.9 | 483.9 | -- |
| Local Revenue and Surplus | | | | |
| Property Tax | 747.2 | 840.3 | 760.3 | (-80.0) |
| Unsecured Tax | 85.3 | 85.3 | -- | (-85.3) |
| Other | 138.7 | 150.7 | 150.7 | -- |
| Total | \$4,094.9 | \$4,565.3 | \$4,367.7 | (-\$197.6) |

The effect of Governor Brown's proposals is to permit only a \$17 million increase in property tax revenues (including Business Inventory Subvention) to finance inflationary increases in a General County budget base of \$4.1 billion. Obviously, this increase, 4/10%, is totally unrealistic compared to a 1980 cost-of-living increase of 13.5%.

As explained further in this report, State and Federal revenues and earmarked fees comprise approximately 76% of the total County Budget, leaving approximately \$1 billion in local revenues to meet County sharing obligations and local funding needs.

Therefore, the real impact of Governor Brown's proposed shift of \$197.6 million in funds to the State as it relates to the County is an approximate 20% reduction from our 1981-82 needs. By way of comparison, the severity of impact from the Governor's budget proposals on Los Angeles County's services is not as great as full application of Proposition 13 without State replacement revenues, but nearly equal to that which might have been expected had the voters approved Proposition 9.

Potential Service Reductions to Implement Governor's Budget

It is clear that if Governor Brown's budget proposals are implemented, there will be severe reductions in the services of local government. Examples of potential service reductions in County programs are discussed in Attachment I and include:

| | Program Impact | | |
|---|--|---------------------------|-----------------------|
| | Bud. Pos. | (millions of \$) Gross | Net |
| <u>Welfare</u> | | (-1,135.7) | \$(-179.5) \$(-16.0) |
| -- | Reflects a 4.75% limit on all cost-of-living increases in welfare grants vs. an estimated CPI growth of 15% and a 10% reduction in administrative staff. The impact would be a reduction in the ability of needy persons to obtain the basic necessities of life, possible quality control sanctions against the County for increased errors, and reduced social services. | | |
| <u>Health</u> | | (-4,801.8) | \$(-177.8) \$(-87.8)* |
| -- | Reflects a 20% reduction in total Health Services budgets. At a minimum, this would require closure of a major hospital or alternatively a 50% reduction in all outpatient services and conducting Beilenson Act hearings prior to implementation. | | |
| *Includes \$13.5 million reduction in AB-8 revenues. | | | |
| <u>Mental Health</u> | | (-108.3) | \$(-10.6) (\$-10.6)** |
| -- | Reflects failure of Governor to recognize any provider cost-of-living increase with result that programs would have to be reduced approximately 7.3%. | | |
| **Includes \$9.0 million reduction in Short-Doyle revenues. | | | |
| <u>Courts</u> | | (-127.7) | \$(-3.6) \$(-3.6) |
| -- | Reflects an approximate 5% decrease in court budgets impacting such services as Own Recognizance, Conciliation Court, civil courts, and processing of traffic and parking violations. Budget reductions in the Courts might result in litigation. | | |
| <u>Law Enforcement</u> | | (-893.7) | \$(-36.6) \$(-36.6) |
| -- | Assumes cuts of \$22.5 million in the Sheriff's Department, \$10.9 million in the Probation Department, and \$3.2 million in the District Attorney, which would severely reduce the level of protection to the community. | | |

| | Program Impact | | |
|---|----------------|---------------------------|-----------------------|
| | Bud. Pos. | (millions of \$) Gross | Net |
| <u>General Government</u> | | (-2,157.4) | \$(-74.5) \$(-43.0) |
| -- Assumes elimination of County's capital construction and vehicle replacement programs, a 50% reduction in park and a 25% reduction in beach maintenance, 25-10% reductions in service departments, and a 10% reduction in watershed fire protection. | | | |
| <u>TOTAL</u> | | (-9,224.6) | \$(-482.6) \$(-197.6) |

The above list of potential program reductions is not to be taken as conclusive, as your Board will ultimately determine the final funding priorities for the 1981-82 County Budget, but it is intended to illustrate the severe implications of the Governor's budget proposals for County services.

These potential reductions in local programs stand in marked contrast to State operations, for which Governor Brown is proposing a \$313.7 million increase in services plus an additional \$1.129 billion in reserves for State employee salary increases, cost-of-living adjustments and economic uncertainties. It is apparent that the Governor, for whatever reasons, perceives the needs and programs of local government as having a much lower priority than those of the State. Since it is at the local level where the majority of governmental services are delivered, including State and Federal programs, a reordering of the State's budget priorities would appear necessary.

State Not Sensitive to Local Government

Local government is having the same difficulties articulating its fiscal needs to the Governor and the State Legislature as it had in articulating the need for meaningful property tax reform prior to the taxpayers' revolt of 1978. Before Governor Brown's budget proposals become a reality, we must make every effort to make clear their impact upon the citizens we serve, including the poor, the sick, and those in need of law enforcement and protection.

Unlike the various departments of the State and the University of California, local government in general, and Los Angeles County in particular, has not had the opportunity of budget hearings to present its funding needs to the Governor or apprise him of the impact of his recommendations on local programs. Accordingly, I am recommending that your Board urge Governor Brown to call such hearings.

Analysis of Availability of State Revenues and Full Examination of State Priorities are Needed

Prior to proposing any reductions in local government financing, the Governor and the Legislature should first look to the use of available reserves. The County Supervisors Association of California (CSAC) recently determined that as much as \$1.2 billion in uncommitted reserves may be available. This consists of Governor Brown's \$620 million reserve for economic uncertainties plus an additional \$600 million in various fund balances. Should it be determined that these reserves are unavailable, the Governor and the Legislature should then conduct a balanced examination of State and local priorities, before modifying current law with respect to the distribution of revenues.

Governor Brown's Budget will Negatively Impact State's Credit Rating

An additional problem with the Governor's budget proposals which we believe he has failed to consider would be their significant, adverse impact on the State's credit rating. The Governor has displayed considerable interest in maintaining the State's strong credit rating by assuring the financial community of stability in State financing and governmental services. Because the financial community properly views cities and counties as agencies of the State and Governor Brown's Budget poses severe fiscal problems for local government, the State's credit rating ultimately will be adversely affected. Such a circumstance would not be dissimilar to that of New York State, which found its own credit rating reduced as a result of its failure to deal adequately with the severe fiscal problems of New York City. (See attached correspondence from H. B. Alvord, Treasurer-Tax Collector.)

Development of 1981-82 County Budget

Without the Governor's proposed property tax shifts and subvention caps and with the use of 1978-79 contested unsecured taxes, frozen by the Legislature until July 1, our 1981-82 County Budget forecast allowed for maintenance of existing service levels with inflationary increases in salaries and employee benefits, services and supplies, and welfare grants with no changes in case-load. Due to present fiscal constraints, no provision could be made in this forecast to address the County's critical unmet needs (e.g., expanded law enforcement to combat violent crime). This forecast was financed under existing law but will be underfinanced by \$197.6 million if Governor Brown's proposals become law.

The Governor's proposals must be taken seriously as we construct the County Budget for 1981-82. Accordingly, in the weeks ahead my staff will be working closely with County departments to analyze their impact on 1981-82 service levels. In April, I plan to present for your Board's consideration two budgets:

1. 1981-82 Recommended Budget

This will reflect current law (Propositions 4 [Gann] and 13 [Jarvis] and AB 8) and will essentially maintain existing service levels with appropriate adjustments for inflation.

2. 1981-82 Alternative Budget

This will reflect major reductions in service levels to conform to Governor Brown's budget proposals.

In developing the 1981-82 Alternative Budget, our approach will be to give first priority to maintaining local services and to recommend reductions in the areas of State mandates: health, human services, and mental health.

In the justice area, I am recommending that the Board immediately seek relief from the mandate to fund the civil trial court system. This is essentially a private party, dispute resolution process, the cost of which (approximately \$32 million annually) should either be self-supporting through increased fees or shifted to the State.

Given the severe, adverse impact which Governor Brown's proposals may have for local law enforcement and emergency services, we are also developing a special tax proposal for your consideration and possible submission to the electorate.

I have no doubt that our 1981-82 Alternative Budget proposals will be characterized by some as scare tactics. To judge them as such would be incorrect. The Board of Supervisors, County management and employee groups have responded to the concerns of the taxpayers for a leaner government by reducing services, reducing benefits, and reducing employees. There is a limit as to how much further revenues may be reduced without seriously impacting services, and unquestionably that limit will be exceeded should the Governor's budget proposals be enacted.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

1. Request Governor Brown to conduct budget hearings on the fiscal needs of local government and the impact of his 1981-82 State budget proposals on local programs and, on conclusion, to reconsider his budget recommendations.
2. Reaffirm its action of December 16, 1980, to adopt the following legislative policies and instruct the Chief Administrative Officer, with the support of affected jurisdictions, to seek legislation as necessary to:
 - a. oppose any effort to divert the contested 1978-79 unsecured property tax revenues from local jurisdictions;

- b. prevent erosion of the County's revenue base under the AB-8 permanent property tax loss replacement program (Chapter 282, Statutes of 1979);
 - c. obtain 100 percent federal reimbursement and/or appropriate State sharing in the cost of providing health services to undocumented aliens; and
 - d. repeal the Beilenson Act to provide the County more flexibility in allocating resources.
3. Adopt the following additional legislative policies, instructing this office, with the support of affected jurisdictions, to seek legislation as necessary to:
- a. oppose reductions in State subventions for business inventory exemptions and cost-of-living adjustments beyond those authorized in current State law;
 - b. provide reasonable cost-of-living adjustments in state allocations for County Short-Doyle Mental Health programs;
 - c. prohibit appropriations for new State programs so long as there are reductions in State assistance and property taxes allowable under current law to local governments;
 - d. apportion any revenue shortfall which may be necessary on an equitable basis between State operations and local governments;
 - e. eliminate, or increase the State's share, or shift to the State's tax base those State mandates listed on Attachment II; and
 - f. make the civil trial court system self-supporting through increased fees or shift the entire cost to the State.
4. Instruct the CAO and Director of Health Services to present potential Beilenson Act reductions in the Department of Health Services for Board consideration and incorporation into the 1981-82 budget, should such reductions become necessary.

January 29, 1981

5. Instruct the Chief Administrative Officer, in concert with the County Counsel and affected emergency service departments, to prepare and submit for Board consideration an emergency services benefit assessment or special tax proposal.

Very truly yours,



HARRY L. HUFFORD
Chief Administrative Officer

HLH:RBD

GAR:pf

Attachments

cc: Executive Office
County Counsel
Legislative Representatives
All Department Heads

ANALYSIS OF GOVERNOR'S 1981-82 PROPOSED STATE BUDGETOverview

On a Statewide basis, key elements of the Governor's 1981-82 proposed budget which are of primary concern to local governments are:

- A \$420 million shift in property taxes allocated to cities, counties, and special districts to schools.
- State confiscation of over \$500 million in 1978-79 contested unsecured property taxes, collected by 22 counties but frozen by the Legislature until July 1, 1981, through reduced subventions on homeowner and business inventory exemptions.
- A cap of 4.75% on Cost-of-Living Adjustments (COLA's) for State subventions on:
 - Business inventory exemptions
 - County Health Services Funds (AB-8)
 - Welfare grants.
- A zero percent (0.0%) COLA for Short-Doyle mental health funds.
- A \$313.7 million increase in funding for State operations, including new programs.
- Maintenance of a \$620 million reserve for economic uncertainties.
- Establishment of an additional \$509 million reserve for unallocated cost of living, including State employee pay raises and COLA's above the proposed 4.75% cap.

Chart I details the Statewide impact on local government of the proposed property tax shifts. The shift to schools at the expense of other local governments is designed to relieve the State of its obligation to fund schools. After allowing for estimated local assessed value growth, the amount of additional property taxes to Los Angeles County would be only 2% (\$17 million) which is totally inadequate to meet inflationary cost increases.

Impact of Governor's Budget Proposals
on Projected County Revenues

As indicated previously and as detailed below, we estimate that the Governor's budget proposals, if enacted, will result in a shift to the State/loss to the County of \$197.6 million from what we could expect to receive in 1981-82 under current law.

1981-82 FISCAL FORECAST GENERAL COUNTY
(Millions of \$)

| | <u>1980-81</u> | <u>1981-82 Estimated</u> | | <u>Shift to</u> |
|---------------------------|----------------|--------------------------|--------------------------|---------------------------|
| | | <u>Present Law</u> | <u>Governor's Budget</u> | <u>State--Loss to Co.</u> |
| Federal Revenue | \$1,145.0 | \$1,260.4 | \$1,260.4 | \$ -- |
| State Revenue | | | | |
| Bus. Inv. Subv. | 78.3 | 92.0 | 82.2 | (-9.8) |
| AB-8 Health | 131.4 | 151.2 | 137.7 | (-13.5) |
| Mental Health | 89.5 | 98.5 | 89.5 | (-9.0) |
| Other | 1,255.6 | 1,403.0 | 1,403.0 | -- |
| County Revenues | | | | |
| Earmarked Fees | 423.9 | 483.9 | 483.9 | -- |
| Local Revenue and Surplus | | | | |
| Property Tax | 747.2 | 840.3 | 760.3 | (-80.0) |
| Unsecured Tax | 85.3 | 85.3 | -- | (-85.3) |
| Other | 138.7 | 150.7 | 150.7 | -- |
| Total | \$4,094.9 | \$4,565.3 | \$4,367.7 | (-\$197.6) |

Practical and Legal Constraints on Reducing County Services

On the surface, reducing \$197.6 million, or 4.4%, from the County's \$4.5 billion budget would appear to be a relatively simple task with minimal impact on services. However, closer examination of the limited revenues which are within the Board's discretion to reduce and of the legal and practical constraints in curtailing certain mandated functions demonstrates not only the severe difficulty of the task but the devastating impact which it would have on local programs.

As shown below and further on Charts III and IV, available local funds which the Board has discretion to reduce amount to \$971.2 million, less than 25% of the total budget:

TOTAL COUNTY BUDGET REVENUES

| | (Millions) | | | |
|-----------------------------|----------------|----------|-------------------------------|----------|
| | <u>1980-81</u> | <u>%</u> | <u>Estimated 1981-82 Rec.</u> | <u>%</u> |
| Special Districts and Funds | \$ 429.2 | 9.5 | \$ 450.2 | 9.0 |
| General County | | | | |
| Federal Revenue | 1,145.0 | 25.3 | 1,260.4 | 25.1 |
| State Revenue | 1,554.8 | 34.4 | 1,744.7 | 34.8 |
| Local Earmarked Revenue | 423.9 | 9.4 | 483.9 | 9.6 |
| Local Revenue | 971.2 | 21.4 | 1,076.3 | 21.5 |
| Total | \$4,524.1 | 100.0 | \$5,015.5 | 100.0 |

Applying \$197.6 million to this reduced base results in a proportionate cut of significantly greater magnitude--approximately 20% if applied across the board. Yet, there are further significant legal and practical considerations in reducing County programs, which are summarized below. These limitations preclude an across the board and certain programmatic budget reductions, such as in welfare. The end result is that the curtailments would fall most heavily on critical local programs of vital interest to the Board and the public:

A. Program Areas in Which the Board's Authority to Make Budget Reductions is Significantly Restrained

| | <u>Amount of Local Funds</u> (Millions) |
|--|--|
| <u>Welfare</u> | \$ 151.1 |
| -- Budget reductions are substantially limited by statutory requirements for local matching of aid payments and administrative costs, federal quality control sanctions, and court decisions establishing minimum levels of subsistence for indigents. | |
| <u>Health</u> | \$159.8 |
| -- Budget reductions are limited by requirements of the Beilenson Act and State law prohibiting denial of emergency room services irrespective of residency status. | |
| <u>Courts</u> | \$117.6 |
| -- Budget reductions are largely limited by constitutional doctrine of separation of powers and specific statutory provisions granting the courts broad authority. | |

B. Program Areas in Which the Board has Relatively Broad Authority to Make Budget Reductions

| | <u>Amount of Local Funds</u> (Millions) |
|--|--|
| <u>Law Enforcement</u> | \$393.2 |
| <u>General Government</u> | \$149.5 |
| -- Budget reductions are facilitated by the fact that cost are locally financed and service levels are locally determined. | |
| Total Local Discretionary Funds | \$971.2 |

- Budget reductions are facilitated by the fact that costs are locally financed and service levels are locally determined.

Potential Services Reductions

Over the next three months we will be analyzing departmental budget requests and available financing in detail in order to present your Board with Recommendations for the Proposed 1981-82 County Budget in late April. However, to illustrate the potential service reductions which might be necessary to present the Board with a balanced County Budget should the Governor's proposals be adopted, we have made a preliminary allocation of the \$197.6 million shortfall to the County's major program areas, which is summarized below:

| | Program Impact | | |
|---------|------------------|------------|-----------|
| Bud. | (millions of \$) | | |
| Pos. | Gross | Net | |
| Welfare | (-1,135.7) | \$(-179.5) | \$(-16.0) |

Welfare (-1, 135.7) \$(-179.5) \$(-16.0)

- Reflects a 4.75% limit on all cost-of-living increases in welfare grants vs. an estimated CPI growth of 15% and a 10% reduction in administrative staff. The impact would be a reduction in ability of needy persons to obtain basic necessities of life, possible quality control sanctions against the County for increased errors, and reduced social services.

Health (-4,801.8) S(-177.8) S(-87.8)*

- Reflects a 20% reduction in total Health Services budgets. At a minimum, this would require closure of a major hospital or alternatively a 50% reduction in all outpatient services, and conducting Beilenson Act hearings prior to implementation.

*Includes \$13.5 million reduction in AB-8 revenues.

| | Program Impact | | |
|---|-------------------|------------------|------------------|
| | Bud. | (millions of \$) | |
| | Pos. | Gross | Net |
| <u>Mental Health</u> | (-108.3) | S(-10.6) | S(-10.6) ** |
| -- Reflects failure of Governor to recognize any provider cost-of-living increase with result that programs would have to be reduced approximately 7.3%. | | | |
| **Includes \$9.0 million reduction in Short-Doyle revenues. | | | |
| <u>Courts</u> | (-127.7) | S(-3.6) | S(-3.6) |
| -- Reflects an approximate 5% decrease in court budgets impacting such services as Own Recognizance, Conciliation Court, civil courts, and processing of traffic and parking violations. Budget reductions in the Courts might result in litigation. | | | |
| <u>Law Enforcement</u> | (-893.7) | S(-36.6) | S(-36.6) |
| -- Assumes cuts of \$22.5 million in the Sheriff's Department, \$10.9 million in the Probation Department, and \$3.2 million in the District Attorney, which would severely reduce the level of protection to the community. | | | |
| <u>General Government</u> | (-2,157.4) | S(-74.5) | S(-43.0) |
| -- Assumes elimination of County's capital construction and vehicle replacement programs, a 50% reduction in park and a 25% reduction in beach maintenance, 25-10% reductions in service departments, and a 10% reduction in watershed fire protection. | | | |
| TOTAL | (-9,224.6) | S(-482.6) | S(-197.6) |

The above list of potential program reductions is not to be taken as conclusive, as your Board will ultimately determine the final funding priorities for the 1981-82 County Budget, but it is intended to illustrate the severe implications of the Governor's budget proposals for County services.

Not addressed in any of the above analyses are several unmet needs which the County has, particularly in the justice area. At the request of the Board, County justice departments have developed budget requests for additional resources to combat increased criminal violence which total \$31 million and 654 positions. The Governor's proposed 1981-82 budget does provide \$120 million statewide which may be used to finance a portion of these needs; however, it will be several months before we can determine the amount of funding which may be available.

Options

Faced with a potential \$197.6 million revenue shortfall, the Board has a series of options which it may employ to mitigate this problem. The options are discussed below with specific recommendations for Board adoption at the end of this report.

1. Request the Governor Hold Budget Hearings on the Needs of Local Governments and the Impact of his Recommendations

Unlike the departments of the State and the University of California, local government in general, and Los Angeles County in particular, has not been given the opportunity through a budget hearing process to demonstrate its needs to the Governor and to fully apprise him of the impact of his decisions. Accordingly, I am recommending that your Board request the Governor to hold such hearings.

2. Seek Legislative Changes to Increase Revenues

The Governor is proposing to reduce property taxes to cities, counties, and special districts by \$420 million while making minimal reductions in state operations and recommending several million dollars in new programs. Additionally, he is proposing a reserve of \$509 million for cost-of-living adjustments and State employee salary increases. An analysis by the County Supervisors Association of California (CSAC) also indicates there may be an additional \$1.2 billion in reserves which might be made available through legislative action. The Legislature should give serious consideration to the use of available reserves and surpluses prior to reducing local revenues or funding new programs. Then, if program reductions are unavoidable, they should be apportioned more equitably among state operations and the various local governments.

2. Seek Legislative Changes to Make Optional or Modify State Mandated Programs

The Beilenson Act represents the one state mandate which we believe should be repealed in order to provide the Board greater flexibility in the allocation of resources. The Board is already on record in seeking this change.

With respect to other state mandates which we have listed on Attachment II, we do not believe that repeal per se would significantly alter the way in which County resources are allocated. Many of the mandates are for essential public services which the Board would be hard pressed to eliminate or reduce significantly. Two examples of the most costly mandates are the operations of the courts and the provision of Indigent Aid. In such cases we believe that the State should assume a greater portion of the costs.

4. Reduce Service Levels

Absent new revenues or legislative changes to relieve mandates, the Board may be faced with difficult choices of making significant reductions in County services. In order that your Board may have before it complete and timely information on which to make such decisions, in the weeks ahead my staff will work closely with County department heads to better assess the impact which the potential \$197.6 million shortfall might have on specific program areas. I will then present to you in April my recommendations for a Proposed County Budget which will include an Alternative Budget to implement Governor Brown's proposals. If at the time it appears that a substantial revenue shortfall still exists, the Board and the Legislature will have a baseline 1981-82 expenditure program for Los Angeles County on which to form final judgments on budget priorities and available revenues for the fiscal year beginning July 1, 1981.

5. Make Major Policy Changes in the Provision of County Health Services

Health care represents the fastest growing cost of County government. As such, it is impossible to make significant reductions in the County budget without impacting the level of health services. Sections 1442 and 1442.5 of the Health and Safety Code provide that before reductions in the level of health services to County indigents may be made, the Board is required to publish notice 90 days in advance, conduct public hearings, and make findings. In anticipation that reductions in health services in 1981-82 might be required, and in order that the requisite Beilenson Act procedures might be concluded prior to the beginning of the next fiscal year, my office and the Director of Health Services will soon present for your consideration proposed Beilenson reductions in the 1981-82 Health Services Budget.

Health care to undocumented aliens represents a substantial cost to the County which is not subject to the Beilenson Act. However, since the majority of the costs are for what are considered emergency services, to realize savings will require significant changes in the screening of emergency patients and the provision of emergency care. Implementation of such changes is currently being examined by this office and the Department of Health Services as a means of increasing revenues or reducing County costs in 1981-82.

6. Seek Voter Approval to Increase Local Revenues

Statutory authority exists for the Board to seek voter approval to increase local revenues. While raising taxes is never a popular option, such proposals have had a measure of success where the voters were both aware of the critical need for the service and correctly perceived the direct benefits to themselves. In anticipation that local emergency services (e.g., police, fire, paramedic, or emergency room) may be adversely impacted to a significant degree by the Governor's 1981-82 budget proposals, my staff has begun exploratory discussions with affected County departments on an emergency services benefit assessment or special tax. We are continuing to analyze the feasibility of such an option should there be no other alternative for maintaining critical County services and will be reporting further to your Board on this matter.

In addition to the above options, severe reductions in services could possibly be lessened and/or delayed by one-time only use of reserves, delay of payment, further divestiture of assets, and other temporary (and generally undesirable) fiscal actions which would have a negative impact in future fiscal periods.

Summary

In summary, the impact of the Governor's proposed 1981-82 state budget on Los Angeles County would be a revenue shortfall of approximately \$197.6 million. Because less than 25% of the County's Budget consists of revenues which the Board has discretion to reduce and due to the practical and legal constraints on reducing certain programs, the impact of the Governor's proposals would be to curtail vital local law enforcement and general government services. To mitigate against such reductions, yet be in a position to respond should the need arise, I am recommending that the Board pursue a series of options as outlined in this report and embodied in its recommendations.

PROPERTY TAXES (Includes HOX and BIX)
(in millions)

| | <u>1980-81 Property Taxes Amount</u> | <u>Governor's Proposed Transfer Amount</u> | <u>Governor's Proposed Percent</u> | <u>Governor's Proposed BIX Cap Amount</u> | <u>Governor's Proposed Percent</u> | <u>Estimated Assessed Value Growth Amount</u> | <u>Estimated Assessed Value Growth Percent</u> | <u>Net Change to 1981-82 Amount</u> | <u>Net Change to 1981-82 Percent</u> |
|-------------------------------------|--|--|--|---|--|---|--|---|--|
| State-Wide 1/ | | | | | | | | | |
| Counties | \$2,209.0 | \$(-150.0) | (-6.8%) | \$(-18.2) | (-.8%) | \$292.0 | 13.2% | \$ 123.8 | 5.6% |
| Cities | 879.0 | (-240.0) | (-27.3%) | (-7.3) | (-.8%) | 116.0 | 13.2% | (-131.3) | (-14.9%) |
| Special Districts | 728.0 | (-30.0) | (-4.1%) | (-6.0) | (-.8%) | 96.0 | 13.2% | 60.0 | 8.2% |
| State 3/ | <u>2,344.0</u> | <u>420.0</u> | <u>17.9%</u> | <u>(-19.3)</u> | <u>(-.8%)</u> | <u>310.0</u> | <u>13.2%</u> | <u>710.7</u> | <u>30.3%</u> |
| Total | \$6,160.0 | \$ --- | --- | \$(-50.8) | (-.8%) | \$814.0 | 13.2% | \$ 763.2 | 12.4% |
| <u>County of Los Angeles 2/</u> | <u>\$ 864.9</u> | <u>\$ (-80.0)</u> | <u>(-9.2%)</u> | <u>\$ (-9.8)</u> | <u>(-1.1%)</u> | <u>\$106.8</u> | <u>12.3%</u> | <u>\$ 17.0</u> | <u>2.0%</u> |

1/ Source: Governor's Proposed 1981-82 Budget

2/ Source: CAO Budget Staff Estimates

3/ Source: Local property taxes are allocated to School Districts by the State to reduce the State's financial obligation to Schools.

1-14-81 LEH

Los Angeles County Impact
Governor's 1981-82 Budget

Chart II

MAJOR TAX SHIFTS & SUBVENTION CAPS

| | 1980-81 Budget | 1981-82 Est. Rev. Per Gov. Bud. | 1980-81 vs. 1981-82 Change | Shift to State |
|---|-------------------|---------------------------------------|-------------------------------------|-----------------------------|
| | (Millions) | | | |
| Property Taxes (Includes HOX & BIX) | \$864.9 | \$ 881.9 | \$ 17.0 | \$ 89.8 (1) |
| Unsecured Taxes | -- | (-85.3) | (-85.3) | 85.3 (2) |
| AB-8 Health Subvention | 131.4 | 137.7 | 6.3 | 13.5 (3) |
| Short-Doyle Mental Health Subvention | <u>89.5</u> | <u>89.5</u> | <u>--</u> | <u>9.0</u> (4) |
| Total | \$1,085.8 | \$1,023.8 | \$(-62.0) | \$197.6 (Loss to County) |
| Less State Subvention | <u>338.6</u> | | | |
| Local Revenue | \$747.2 | | | |
| Other Local Revenue | <u>224.0</u> | | | |
| Total Local Revenue | \$971.2 | | | |

Footnotes:

- (1) Estimated average growth \$106.8 less property tax shift \$80.0 and BIX subvention cap \$9.8 = net growth of \$17.0 for County and \$89.8 shift to State.
- (2) 1978-79 contested unsecured taxes collected.
- (3) Estimated AB-8 Health Subvention based on estimated CPI (15.0%) \$19.8; based on Governor's cap of 4.75% \$6.3; thus, \$13.5 shift to State.
- (4) Estimated inflationary increase (10%) required to maintain programs.

Chart III

Analyses of 1980-81
County BudgetTotal All County Budgets

| <u>Source</u> | <u>Amount</u> | <u>Percent</u> |
|---|-----------------|----------------|
| Federal Revenues | \$1,194,767,417 | 26.4 |
| State Revenues | 1,637,170,764 | 36.2 |
| Local Revenues | 1,692,172,125 | 37.4 |
| <hr/> | | |
| TOTAL | \$4,524,110,306 | 100.0 |
| Less: Special Funds and Special Districts | 429,243,090 | |
| <hr/> | | |
| GENERAL COUNTY | \$4,094,867,216 | |

General County Budget

| <u>Source</u> | | |
|--------------------|-----------------|-------|
| Federal Revenues | \$1,145,053,932 | 28.0 |
| State Revenues | 1,554,781,922 | 38.0 |
| County Revenues: | | |
| Earmarked Fees (1) | 423,879,242 | 10.3 |
| Local Revenues (2) | 971,152,120 | 23.7 |
| <hr/> | | |
| Total | \$4,094,867,216 | 100.0 |

Footnotes:

- (1) Local Revenues Earmarked Fees are cost-recovery fees (e.g., Contract City charges, building permits, etc.) where the revenue will be available only to offset specific costs.
- (2) Local Revenues are property taxes (excluding HOX and BIX subventions), surplus (other than unsecured taxes reserve), and nondepartmental revenues (e.g., interest earnings, sales taxes, etc.)

1/19/81

RBD:ytv

1980-81 Uses of Local Revenues
(Millions)

| | <u>Appropriation</u> | <u>Revenue</u> | <u>Local</u> |
|----------------------|----------------------|-----------------|---------------|
| Courts | \$ 159,819,278 | \$ 42,177,463 | \$117,641,815 |
| Law Enforcement | 492,910,126 | 99,758,187 | 393,151,939 |
| Health | 1,087,488,723 | 927,685,127 | 159,803,596 |
| Welfare | 1,429,694,933 | 1,278,590,030 | 151,104,903 |
| General Government | 924,954,156 | 775,504,289 | 149,449,867 |
| | | | |
| Total General County | \$4,094,867,216 | \$3,123,715,096 | \$971,152,120 |

Local Share Major Programs

| <u>Program</u> | <u>Percentage</u> |
|--------------------|-------------------|
| Courts | 73.6 |
| Law Enforcement | 79.8 |
| Health | 14.7 |
| Welfare | 10.6 |
| General Government | 16.2 |
| Overall | 23.7 |

Share of Local Revenues
Allocated to Major Programs

| | |
|--------------------|-------------|
| Courts | 12.1 |
| Law Enforcement | 40.5 |
| Health | 16.5 |
| Welfare | 15.5 |
| General Government | <u>15.4</u> |
| | |
| Total | 100.0 |

**SIGNIFICANT STATE MANDATES RECOMMENDED FOR ELIMINATION OR
INCREASED STATE SHARE OR SHIFT TO STATE TAX BASE**

| <u>Program Area/Mandated Service</u> | <u>Recommended Legislative Position</u> | | <u>Comment</u> |
|---|---|--|--|
| | <u>Eliminate Mandate</u> | <u>Increase State Share or Shift to State Tax Base</u> | |
| <u>Health Services</u> | | | |
| Level of Health Care to Indigents (Beilenson Act) | X | | <p>Prior to closing a County facility, eliminating or reducing services, or leasing, selling or transferring management, the Board is required to provide public notice 90 days in advance, hold a hearing, and make findings that such actions will not have a detrimental impact on the health care needs of County indigents. The Board is also required to notify the State and the areawide health planning agency 60 days in advance of such changes. (Health and Safety Code Sections 1442 and 1442.5)</p> <p>The Beilenson Act effectively prohibits the County from reducing costs or increasing efficiency in the delivery of health care. Moreover, as health care costs rise, and federal and state participation remains static or declines, more and more local discretionary funds are shifted to health care at the expense of other critical local programs. The State should repeal this mandate so long as they and the federal government fail to share adequately in the costs.</p> |
| Emergency Medical Care to Undocumented Aliens | X | | <p>Health and Safety Code Section 1317 requires the County, as an operator of emergency rooms, to provide emergency medical care to all persons in need regardless of financial ability and residency status.</p> <p>The Department of Health Services estimates that approximately one out of every five patient served is an undocumented alien and that the cost of providing emergency medical care to this group approximates \$100 million annually. Currently, none of these costs is reimbursable under the state and federal health programs. So long as the County operates its emergency rooms, it is mandated to serve this population, and elimination of the mandate for this group is unrealistic. The solution is for the federal government, which determines immigration policy, to assume this entire cost. Absent this, the cost of treating undocumented aliens should be eligible for reimbursement under the Medi-Cal and Medicare programs.</p> |
| <u>Welfare</u> | | | |
| Administration | X | | <p>This category includes administrative costs for financial assistance programs and social services. (These programs and services are mandated by Division 9 of the Welfare and Institutions Code.)</p> |

| <u>Program Area/Mandated Service</u> | <u>Recommended Legislative Position</u> | | <u>Comment</u> |
|---|---|--|--|
| | <u>Eliminate Mandate</u> | <u>Increase State Share or Shift to State Tax Base</u> | |
| <u>Welfare (Cont'd.)</u> | | | |
| Aid to Families with Dependent Children (AFDC-FG/U//BHI) to | X | | <p>This service provides an adequate income level through cash assistance to needy families (children and adults) in conformance with Federal and State administrative and statutory requirements. (This service is mandated under Federal Statute - Title IV-A of the Social Security Act and the Welfare and Institutions Code - Division 9, Part 3, Chapter 2.)</p> <p>These costs should be shifted to the Federal and State governments as these levels of government set eligibility requirements for participants.</p> |
| Indigent Aid (General Relief) | X | | <p>This service provides an adequate income level on a temporary basis to indigent adults who are ineligible for Federal and State financial assistance programs. (The legal basis is Section 17000 et. seq. of the Welfare and Institutions Code.)</p> <p>That portion of the monthly indigent aid grant which the courts have held to be the minimum required should be shifted to the State and/or Federal governments as no discretion is left to local jurisdictions in this matter.</p> |
| <u>Courts</u> | | | |
| Superior and Municipal Courts and County Clerk | X | | <p>The Superior Court renders justice in criminal, juvenile, civil, family, probate, mental health, and appellate proceedings. (Article 6 of the California State Constitution provides the legal basis for the Superior Court.)</p> <p>The Municipal Courts render justice in non-criminal controversies between parties, and provide due process of law in controversies between the people and accused persons in criminal and traffic matters. (The laws which regulate the Municipal Courts are contained in Article 6 of the California State Constitution and Sections 72000-73074 of the Government Code.)</p> <p>The County Clerk provides support services for juvenile, criminal, civil, and mental cases related to the Superior Court (Government Code Section 26800 and Article 11 of the Constitution.)</p> <p>The Courts are part of the judicial system of the State, and under existing laws the control of such courts is a State, rather than a local, matter. The cost of criminal courts, therefore, is properly a State responsibility.</p> |
| -- Criminal Courts | | | |

| Program Area/Mandated Service | Recommended Legislative Position | | Comment |
|---|----------------------------------|---|--|
| | Eliminate Mandate | Increase State Share or Shift to State Tax Base | |
| Courts (Cont'd.) | | | |
| -- Civil Courts | | | |
| Public Defender, Court Appointed Counsel, and Mandated Expenses for Witnesses, Experts, Juries, Reporters, etc. | X | | The civil trial court system is essentially a private party dispute resolution process. Civil fees which are set by statute do not come close to offsetting the total costs. These fees should be increased to make the civil trial courts self-sustaining or the entire costs should be shifted to the State. |
| Court Bailiff and Security Services Provided by Marshal and Sheriff | X | | The Public Defender and appointed Counsel provide legal defense services for accused adults and juveniles. Government Code, Section 27706 et. seq.) The County is also responsible for the costs of all other court related services. |
| | | | As the State, rather than the County, controls the Courts, the costs of indigent defense counsel and support services should also be shifted from the property tax to a State tax base. |
| Law Enforcement | | | |
| Jails and Juvenile Detention Facilities | X | | The Sheriff is required to attend all sessions of the Superior Court (Government Code 26603 and 26611). The Marshal provides security for all parties and ensures that proceedings take place in an orderly manner at all Municipal Court proceedings (Government Code Sections 72110 and 71264 and Penal Code Section 4004). |
| | | | Staffing and salary levels for the Marshal are set by the State Legislature. Superior Court Judges determine which courtrooms require bailiffs and thereby establish staffing levels. The costs of these services should, therefore, be borne by the State. |
| | | | The Sheriff is responsible under Government Code Section 26605 for all persons remanded to his custody. Similarly, Welfare and Institutions Code Section 850 requires the Probation Officer to maintain juvenile halls. Neither the Sheriff nor the Probation Officer have any control over the intake or length of stay of their inmates as this is determined by State law and the courts. Minimum staffing standards are determined by State regulation and Federal and State courts are increasingly defining the level of care of inmates. As the costs of these services are largely determined by State law and regulations and the State court system, they should properly bear the majority, if not all, of these costs. |

OFFICE OF COUNTY TREASURER AND TAX COLLECTOR

January 29, 1981

TO: Harry L. Hufford
Chief Administrative Officer

FROM: H. B. Alvord *H.B. Alvord*
Treasurer and Tax Collector

SUBJECT: IMPACT OF GOVERNOR'S 1981-82
PROPOSED STATE BUDGET

I share your concern of the subject which we discussed briefly last night walking out of the building.

I am particularly concerned with the Governor and the Legislature apparently meddling with what we thought was a permanent formula under which local government and the public school system were supposed to have had long term financing arrangements with the State. The fact that the Legislature or the Governor has the ability to take this away on what appears to be very short notice plays havoc with our credit ratings.

The rating agencies are very concerned with anything that creates uncertainty as the Governor's proposed budget does. It is this uncertainty which led to the complete withdrawal of all ratings on Joint Powers Authorities and non-profit corporation bond issues in 1978. It was uncertainty which reduced those ratings when they were restored a year or so later.

What we need is a permanent financing formula if we are to run things on anything like a businesslike basis. Rating agency authorities have told us that Los Angeles County in particular has managed its affairs very well, and insofar as things under our control, we would always enjoy top credit ratings with that sort of management. Our inability to control the uncertain actions of the Governor and the Legislature, however, are another story.

There is no question that the economy of the State and of Los Angeles County is sufficient to give both very high credit ratings. It is the uncertainty created by the frequent changes in the formula which works to the detriment of both the State and the County. As you know, the State's rating has already been reduced from AAA to AA.

HBA:ea

State funds Potentially Available
(Millions of Dollars)

Uncommitted Reserves

| | |
|---|------------------|
| Reserve for Economic Uncertainties | \$ 620.0 |
| Reserve for Unallocated Cost of Living | <u>509.0</u> |
| Reserves | \$1,129.0 |
| <u>State Operations Program Growth</u> 1/ | 313.7 |
| <u>Fund Balance Estimates per CSAC</u> | 600.0 |

Legislation related to Governor's
Budget Now Under
Detailed Analysis

| | <u>Senate</u> | <u>Assembly</u> |
|---------------|---------------|-----------------|
| <u>Budget</u> | SB 110 | AB 250 |
| <u>Bill</u> | (Alquist) | (Vasconcellos) |

| | | |
|---|---------------------|--------------------------|
| <u>Statutory Changes required to implement budget</u> | SB 111 (Alquist) | AB 251 (Vasconcellos) |
|---|---------------------|--------------------------|

1/ State Department of Finance reports
State Operations Budget
Increase of \$+313.7 million; + 5.76%
Local Assistance budget
Decrease of \$(-258.2 million); (-1.44%)

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